CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM

STAFF REPORT

EXECUTIVE SUMMARY			
Applicant:	Village School, Inc. (Borrower or School)	**Amount Requested:**	Not to exceed $9,880,000
Applicant Description:	The Borrower, a California nonprofit public benefit corporation, is an independent, coeducational day school serving students in grades pre-kindergarten through 6.	**Date of Board Meeting:**	December 14, 2010
		Resolution Number:	10-40
		Type of Bonds:	New Issue
Project Site:	780 Swarthmore Avenue and 15236 La Cruz Drive Pacific Palisades, CA 90272	**Prepared by:** Tara Dunn	
Project Description:	The project (Project) involves financing (a) the retirement of the outstanding amount of the City of Los Angeles Adjustable Rate Certificates of Participation (Village School, Inc.) 2004 Series A (2004 Certificates) and (b) the construction, remodeling and equipping of facilities located at 780 Swarthmore Avenue (Main Campus), including a library, computer lab, offices and related facilities (2010 Project). The proceeds of the 2004 Certificates were used to finance the cost of constructing and general development of an athletics and arts building and parking facilities at 15236 La Cruz Drive and to refinance the costs of certain facilities including a classroom building and parking facility at the Main Campus.		
Uses of Bond Proceeds:	Bond proceeds will be used to pay the costs of the Project including issuance costs of the bonds.		
Public Benefits:	The retirement of the 2004 Certificates is expected to save the Borrower approximately $2.7 million on a present value basis and mitigate interest rate risk associated with the recent credit rating downgrade of the current security provider for the 2004 Certificates, Allied Irish Banks, p.l.c. The 2010 Project will allow the Borrower to reposition and upgrade existing facilities located at the Main Campus improving specialized programs for students.		

Financing Structure:	
Type of Issue:	Privately placed bank qualified bonds initially issued as fixed-rate securities in minimum denominations of $500,000. In the event the bonds receive a rating and are subsequently publicly reissued, the authorized denominations will be $100,000 or any integral multiple of $5,000 in excess thereof.
Tax Status: Term:	Tax-exempt 501(c)(3) bonds.
Credit Enhancement:	Initial term of up to 7 years with a maturity not to exceed 30 years.
Credit Rating:	None; private placement with a qualified institutional buyer exception is applicable.

Est. Sources of Funds:		**Est. Uses of Funds:**	
Par amount of the bonds	$9,880,000	Prepay 2004 Certificates	$8,870,000
Equity Contribution	70,000	Costs of 2010 Project	880,000
		Costs of Issuance	200,000
TOTAL SOURCES	**$9,950,000**	**TOTAL USES**	**$9,950,000**

Financing Team:	
Issuer's Special Counsel:	Hawkins Delafield & Wood LLP
Bond and Disclosure Counsel:	Kutak Rock LLP
Purchaser:	U.S. Bank National Association
Trustee:	U.S. Bank National Association
Financial Advisor:	Angeles Investment Advisors, LLC

Staff Recommendation:
Staff recommends approval of Resolution 10-40 for an amount not to exceed $9,880,000 for Village School, Inc.

BACKGROUND AND HISTORY

Village School, Inc., a qualified 501(c)(3) non-profit corporation, is an independent coeducational day school located in Pacific Palisades providing educational services to students in pre-kindergarten through 6th grade.

The School was founded in 1977 by parents and community members seeking to establish a community-based independent school in Pacific Palisades. The School's mission is to challenge each child to reach his or her full intellectual, creative, and physical potential through an integrated curriculum founded on traditional and developmental principles. School life is designed to encourage students to become life-long learners through intellectual curiosity, discovery and achievement. The School strives to create a diverse community that fosters mutual respect and social responsibility, enhanced by a strong partnership between home and school. The School is accredited by the Western Association of Schools and Colleges and is a member of the California Association of Independent Schools and the National Association of Independent Schools.

The School's current annual enrollment is approximately 290. The annual tuition for a full-time student is currently $22,750. The Borrower estimates that 10% of its students receive financial assistance.

The School employs 60 full-time faculty and staff and operates on two campuses. The main school building located on Swarthmore Avenue was constructed in 1994 and includes pre-K through 6th grade classrooms, a library, a technology center and a science lab. In 2007, construction was completed on the new center for the arts and athletics located on La Cruz Avenue, which includes a gymnasium, visual arts studio, music studio and performance space as well as a dance studio.

GOVERNANCE AND MANAGEMENT

A listing of the School's Administrative Staff and Board of Trustees is included in Appendix A.

PROJECT DESCRIPTION

The Project includes financing the retirement of the outstanding amount of the City of Los Angeles Adjustable Rate Certificates of Participation (Village School, Inc.) 2004 Series A (2004 Certificates). The proceeds of the 2004 Certificates were used to finance the cost of construction and general development of an athletics and arts building and parking facilities (Center for the Arts and Athletics) at 15236 La Cruz Drive, which was completed in 2007 and to refinance the costs of the construction of its main school building and parking facility at 780 Swarthmore Avenue (the "Main Campus", which was completed in 1994 (see Appendix B – Project Photos). The Project also includes the financing of the construction, remodeling and equipping of facilities located at the Main Campus, including a library, computer lab, offices and related facilities (2010 Project).

The Main Campus currently consists of a two-story building containing approximately 23,229 square feet built above one level of subterranean parking with space for 28 cars. The building houses 20 classrooms, a library, administrative offices and play yards.

The Center for the Arts and Athletics consists of a two-story building containing approximately 16,300 square feet built above two levels of subterranean parking with space for 73 cars. This facility houses the School's athletics and arts programs and includes specialized music, art and dance classrooms, an artificially turfed playing field and a "gymtorium", a multi-functional room that contains a full-size basketball/volleyball court that is convertible to a theater and performance space with seating for 500.

The 2010 Project involves renovation of an existing library, computer lab, offices and other related facilities located at the Main Campus. The Main Campus renovation plan was created as a means of repositioning and upgrading the Main Campus, primarily to make use of space that was freed up when functions and programs were relocated to the Center for the Arts and Athletics, and to update areas of specialized instruction - specifically the technology center and the library. Other components of the plan include the conversion of existing non-instruction space into more productive administrative and faculty areas, and addition of a state-of-the-art technology classroom, as well as renovation and remodeling of the school's library to expand instruction and reading space and create a "reading theater". Also included in the plan are the equipping of the existing facilities, and the repositioning and redeployment of under-utilized spaces.

FINANCING STRUCTURE

The Borrower is requesting approval for the issuance of tax-exempt bonds (Bonds) in an amount not to exceed $9,880,000. The Bonds will be issued pursuant to an indenture between the I-Bank and U.S. National Bank Association, as Trustee, (Indenture) and a loan agreement between the I-Bank and the Borrower (Loan Agreement).

The Bonds will not be credit enhanced but initially issued as fixed-rate bank qualified bonds privately placed with U.S. Bank National Association (Purchaser), a qualified institutional buyer as defined in Section 144(A) promulgated under the Securities Act of 1933, as amended (Qualified Institutional Buyer or QIB). The Purchaser intends to hold the Bonds for an initial term of up to seven years. The Bonds will have a 30 year maturity, and the Purchaser's ability to sell or otherwise transfer the Bonds is limited to sales or transfers to QIBs .

Although the Bonds will be initially issued as fixed-rate, the Indenture allows the Borrower the flexibility to change interest rate modes at any time, whether to variable or fixed-rate, and upon choosing to change modes, the Borrower will be required to obtain a letter of credit supporting a rating on the bonds of at least "A-" or better in accordance with the I-Bank's adopted Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities (Policies) or place the bonds with a QIB.

<u>Private Placement</u>
In accordance with the Policies, the I-Bank's general policy is to issue bonds bearing certain minimum ratings. The Polices provide that the Board may waive the requirement

for a credit rating where the bonds are sold using a private placement or limited underwriting offering structure subject to the following additional conditions:

1. **Sophisticated Investor**. The investor(s) will be required to sign a "sophisticated investor" letter acceptable to the Infrastructure Bank. Each investor must be a qualified institutional buyer within the meaning of S.E.C. Rule 144A, or an equivalent sophisticated investor with a demonstrated understanding of the risks associated with the municipal market, acceptable to the Infrastructure Bank.
2. **Resale Limitations**. Depending on the circumstances of the proposed sale, the Infrastructure Bank may require conditions for the resale of the Bonds after initial issuance.
3. **Minimum Denomination**. The Infrastructure Bank will require a minimum bond denomination of at least $100,000 on private placements or limited underwritten offerings; denominations may be higher depending on the circumstances of the sale.

The proposed Bonds will not be rated, which requires the Board to waive the Policies' credit rating requirement and impose certain conditions on the financing. For this reason, the proposed financing structure of the Bonds is a private placement. Specifically, pursuant to the terms of the financing documents for the Bonds, the Purchaser will certify in the bond purchase contract, among other things, that: (i) it is a Qualified Institutional Buyer; (ii) it has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Bonds and that it is able to bear the economic risks of such investment; and, (iii) unless the Bonds are subsequently rated by a rating agency at a rating which meets the I-Bank's minimum rating standards, the Purchaser will prohibit the transfer of the Bonds, except to another QIB signing a sophisticated investor letter, and only in denominations of $500,000 or greater. The Purchaser will also certify that it understands there is no liability on the part of the I-Bank or the State to make any payment on the Bonds other than the I-Bank's limited obligation to make payments from revenues received from the Borrower.

In no event shall the Bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the Bonds. The Bonds constitute a special obligation of the I-Bank, payable solely from revenues consisting of repayments of the loan provided for in the Loan Agreement.

PUBLIC BENEFITS

The Borrower estimates that it will save approximately $2.7 million over the life of the loan fully amortized over 30 years on a present value basis. The Project will also mitigate interest rate risk associated with the recent credit rating downgrade of the current security provider for the 2004 Certificates, Allied Irish Banks, p.l.c.

As a result, the tax-exempt financing will result in reduced operating costs, thereby increasing revenue to support an expansion of services to students.

The 2010 Project will allow the Borrower to reposition and upgrade existing facilities located at the Main Campus improving specialized programs for students.

This financing will allow the Borrower to take advantage of a provision (due to expire December 31, 2010) of the federal American Recovery and Reinvestment Act (ARRA) permitting banks to purchase certain tax-exempt bonds issued.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	☒ **NO** ☐ **YES, Describe:**
TEFRA	
Date of TEFRA	December 10, 2010 and December 14, 2010
Publications	*The Sacramento Bee* *Metropolitan News-Enterprise*
Oral/Written Comments Received	☒ **NO** ☐ **YES, Explain:**
LEGAL QUESTIONNAIRE	
Completed?	☐ **NO** ☒ **YES**
Issues?	☒ **NO** ☐ **YES, Explain:**
ELIGIBILITY REVIEW	
Borrower meets all of the I-Bank eligibility criteria? ☒ **YES** ☐ **NO**	1. Project is in the State of California. 2. Borrower is capable of meeting its obligations incurred under the proposed loan agreement, and, in particular as to its loan repayment obligations which secure the Bonds, as a result of having met the requirements of the Purchaser for a direct purchase of the Bonds. 3. Payments to be made by the Borrower to the I-Bank under the proposed loan agreement are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments on the Bonds. 4. The proposed financing is appropriate for the Project. 5. The Borrower has represented that the facilities financed or refinanced by the Project are consistent with any existing local or regional comprehensive plans.
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: ☒ **YES**[1] ☐ **NO**	
INDUCEMENT CERTIFICATE	
Completed?	☐ **NO** ☐ **YES** ☒ **N/A** Certificate No.: Date:

RECOMMENDATION

Staff recommends approval of Resolution 10-40, for an amount not to exceed $9,880,000 for Village School, Inc.

[1] As noted elsewhere in this report, the Bonds are not rated as required by the Policies, but do not meet the requirements for a waiver of that requirement as a result of private placement with a Qualified Institutional Buyer.

APPENDIX A – School's Administrative Staff and Board of Trustees

Administrative Staff	
Nora C. Malone	Head of School
Barbara Ruth Williams	Assistant Head of School
Manuel Pardo	Director of Finance and Operations
Sue Slotnick	Director of Advancement

APPENDIX B – PROJECT PHOTOS

Visual proximity of the School's two facilities.

Entrance to the School's main campus off Swarthmore Avenue.

The School’s new Center for the Arts and Athletics completed in 2007.